

Chapter 8

Inventory

Objectives

After completing this chapter, you should be able to:

- Activate the Inventory function (page 236)
- Set up Inventory Items in the Item List (page 237)
- Use QuickBooks to calculate the average cost of Inventory (page 242)
- Record sales of Inventory using sales forms (page 242)
- Use *Purchase Orders* to order Inventory (page 246)
- Receive Inventory against *Purchase Orders* (page 247)
- Enter *Bills* for received Inventory (page 253)
- Adjust your Inventory (page 257)
- Set up Group Items to bundle products and/or services (page 259)
- Create reports about Inventory (page 261)

Restore this File

This chapter uses Inventory-12.QBW. To open this file, restore the Inventory-12.QBM file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

In this chapter, you will learn how to set up and manage your inventory in QuickBooks. QuickBooks has a number of tools for tracking goods and materials, including the *Inventory Center*.

QuickBooks Tools for Tracking Inventory

The *Vendors* section, located on the *Home* page, shows a graphical representation of the steps involved in purchasing and receiving Inventory. Figure 8-1 shows the purchasing process, beginning with creating a *Purchase Order* and ending with paying *Bills*.

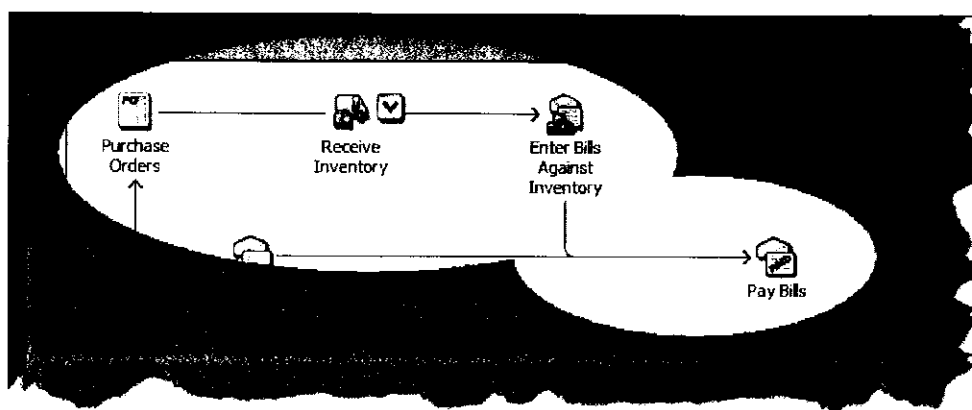


Figure 8-1 Vendors section of the Home page

Table 8-1 shows an overview of the **accounting behind the scenes** for different business transactions that involve Inventory. Familiarize yourself with this table, and refer to it when you encounter business transactions involving Inventory.




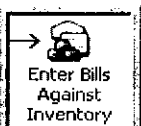
| Business Transaction | QuickBooks Transaction | Accounting Entry | Comments |
|--|--|---|--|
| Purchasing Inventory with Purchase Orders |  Purchase Orders | Non-posting entry used to record <i>Purchase Orders</i> . | You do not have to use <i>Purchase Orders</i> . If you do, QuickBooks tracks the status of your <i>Purchase Orders</i> and matches them with the <i>Bill</i> from your Vendor. |
| Receiving Inventory (Without Bill from Vendor) |  Receive Inventory Select Receive Inventory without Bill | Increase (debit) Inventory , increase (credit) Accounts Payable . Increase Inventory quantities for each item received. | Use this transaction when you receive Inventory items that are not accompanied by a bill. This transaction enters an <i>Item Receipt</i> in the Accounts Payable account. Although it increases A/P, no bill shows in the <i>Pay Bills</i> window. |
| Receiving Inventory (With Bill from Vendor) |  Receive Inventory Select Receive Inventory with Bill | Increase (debit) Inventory , increase (credit) Accounts Payable . Increase inventory quantities for each item received. | Use this transaction when you receive inventory accompanied by a bill from the Vendor. |
| Entering a Bill for Previously Received Inventory Items |  Enter Bills Against Inventory | No change in debits and credits. This transaction only changes an <i>Item Receipt</i> transaction into a <i>Bill</i> . | When an <i>Item Receipt</i> is turned into a <i>Bill</i> , QuickBooks shows the <i>Bill</i> in the <i>Pay Bills</i> window. |

Table 8-1 Summary of Inventory transactions

Tracking Inventory with QuickBooks

It is critical to think through your company's information needs before tackling Inventory. New users sometimes try to use Inventory parts to track products they don't really need to track in detail. You must separately enter every purchase and sale for each Inventory part. That might not seem like too much work at first, but if you have hundreds of small products with even a moderate turnover, you might overwhelm your bookkeeping system with detailed transactions.

When you use *Inventory Part Items* to track inventory, QuickBooks handles all the accounting for you automatically, depending upon how you set up *Inventory Part Items* in the *Item List*. Inventory is defined as goods that are purchased from a Vendor that will be sold at a future date. For example, a retailer has Inventory until they sell the merchandise to customers. When the Inventory is sold, it is removed from the *Inventory Asset* account and expensed through Cost of Goods Sold. This enables the sale to be properly matched to the expense in the right accounting period.

QuickBooks keeps a perpetual inventory, meaning that every purchase and every sale of Inventory immediately updates all your account balances and reports.

When QuickBooks Pro or Premier calculates the cost of Inventory, it uses the *average cost* method, explained on page 242. QuickBooks Pro and Premier do not support the first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. New with the 2012 release, QuickBooks Enterprise Solutions does support FIFO as well as many other advanced Inventory features such as lot tracking and enhanced receiving. This chapter focuses on feature available with Pro and Premier.

Key Term: *Perpetual inventory* in QuickBooks keeps a continuous record of increases, decreases, and balance on hand of Inventory items.

Key Term: *Average Cost* method divides the cost of Inventory by the number of units in stock. It is most appropriate when prices paid for Inventory do not vary significantly over time, and when Inventory turnover is high (i.e., products sell through quickly). QuickBooks calculates the cost of Inventory using this method.

In order to keep your inventory system working smoothly, it is critical that you use *Inventory Parts Items* on all transactions involving Inventory. This means you must use the *Items* tab on every purchase transaction that involves *Inventory Part* type Items. Figure 8-2 illustrates entering a *Bill* using *Inventory Part Items*.

DO NOT ENTER THIS BILL NOW. IT IS FOR REFERENCE ONLY.

The screenshot shows the 'Enter Bill' window in QuickBooks. At the top, there are buttons for 'Previous', 'Next', 'Save', 'Find', 'History', and 'Attach'. Below these are radio buttons for 'Bill' and 'Credit', and a checked checkbox for 'Bill Received'. The main area displays a bill for 'Picture Frame - 5x7 in. Metal Frame' with a quantity of 40, a cost of 2.15, and an amount of 86.00. The 'Items' tab is selected, and the 'Bill Received' checkbox is checked. A callout box points to the 'Items' tab with the text 'Use the Items tab on all Inventory purchases.' Another callout box points to the top of the window with the text 'Do not enter this now. It is for reference only.'

| Item | Description | Qty | Cost | Amount | Custom... | Bill... | Class |
|-----------|-------------------------------------|-----|------|--------|-----------|---------|------------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 40 | 2.15 | 86.00 | | | Walnut Cre |

Expenses: \$0.00 Items: \$86.00

Buttons: Select PO, Receive AP, Show PO, Time, Clear Split, Recalculate, Save & Close, Save & New, Clear

Figure 8-2 The *Items* tab is used for inventory transactions

Activating the Inventory Function

The first step in using QuickBooks for Inventory is to activate *Inventory* in your *Company Preferences*.

COMPUTER PRACTICE

- Step 1. Select **Preferences** from the *Edit* menu.
- Step 2. Select the **Items & Inventory Preference** and then select the **Company Preferences** tab.

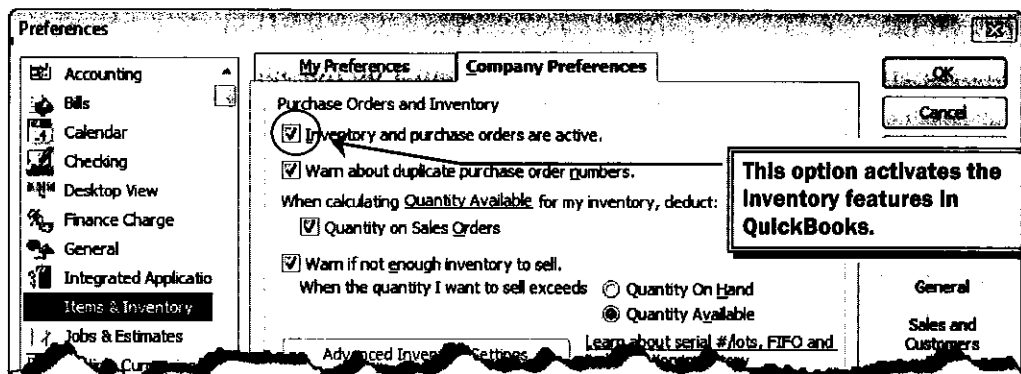


Figure 8-3 Company Preferences for Items & Inventory

- Step 3. Verify that **Inventory and purchase orders are active** is checked (see Figure 8-3).

Note:

When *Inventory* is activated, *Purchase Orders* are also activated. However, you are not required to use *Purchase Orders* when tracking *Inventory*.

- Step 4. Click the **OK** in the *Preferences* window.

After you activate the *Inventory* function, the *Item List* shows a new *Item* type called *Inventory Part* (see Figure 8-4). Only the *Inventory Part* Items are displayed in the *Inventory Center* (see Figure 8-5).

| Name | Description | Type | Account | Total Quan... | On Sales ... | Price | Attach |
|------------------------|--|--------------------|-----------------------|---------------|--------------|--------|--------|
| Outdoor Photo Session | Outdoor Photo Session | Service | 40000 · Services | | | 95.00 | |
| Photographer | Photographer | Service | 40000 · Services | | | 125.00 | |
| Retouching | Photo retouching services | Service | 40000 · Services | | | 95.00 | |
| Camera SR32 | Supra Digital Camera SR32 | Inventory Part | 45000 · Sales | 9 | 0 | 695.99 | |
| Case | Camera and Lens High Impact Case | Inventory Part | 45000 · Sales | 24 | 0 | 79.99 | |
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | Inventory Part | 45000 · Sales | 22 | 0 | 5.99 | |
| Lens | Supra Zoom Lens | Inventory Part | 45000 · Sales | 7 | 0 | 324.99 | |
| Film 36C | 200 ASA, 36 Color Film | Non-inventory Part | 45000 · Sales | | | 12.36 | |
| Premium Photo Package | Premium Package of Photography from Session | Non-inventory Part | 45000 · Sales | | | 85.00 | |
| Standard Photo Package | Standard Package of Photography from Session | Non-inventory Part | 45000 · Sales | | | 55.00 | |
| Bad Debt | Bad Debt - Write off | Other Charge | 60300 · Bad Debts | | | 0.00 | |
| Bounce Chg | Return Check Fee | Other Charge | 45000 · Sales | | | 0.00 | |
| Contra Costa | Contra Costa County Sales Tax | Sales Tax Item | 25500 · Sales Tax ... | | | 8.25% | |
| Out of State | Out-of-state sale, exempt from sales tax | Sales Tax Item | 25500 · Sales Tax ... | | | 0.0% | |
| Santa Clara | Santa Clara County Sales Tax | Sales Tax Item | 25500 · Sales Tax ... | | | 8.25% | |

Figure 8-4 Item List window

The first time you create an *Inventory Part* Item in the *Item List*, QuickBooks automatically creates two accounts in your *Chart of Accounts*: An *Other Current Asset* account called *Inventory Asset* and a *Cost of Goods Sold* account called *Cost of Goods Sold*. QuickBooks uses these two important accounts to track *Inventory* (see Table 8-2). The *Inventory Asset* account holds the

value of your Inventory until you sell it. The Cost of Goods Sold account records the cost of the Inventory *when* you sell it.

| Accounts for Tracking Inventory | |
|---------------------------------|---|
| Inventory Asset | A special <i>Other Current Asset</i> account that tracks the cost of each Inventory item purchased. This account increases (by the actual purchase cost) when Inventory is purchased, and decreases (by the weighted average cost) when Inventory items are sold. |
| Cost of Goods Sold | Cost of Goods Sold is subtracted from total Income on the <i>Profit & Loss Report</i> to show <i>Gross Profit</i> . QuickBooks automatically increases Cost of Goods Sold each time you sell an Inventory item. |

Table 8-2 Two accounts that track inventory

Setting up Inventory Parts Items

To set up an inventory part in the *Item List*, follow these steps:

COMPUTER PRACTICE

- Step 1. In the *Company* section of the *Home* page, select **Inventory Activities** and choose **Inventory Center** from the menu (see Figure 8-5). Alternatively, select the **Vendors** menu and choose **Inventory Activities**, then select **Inventory Center**.

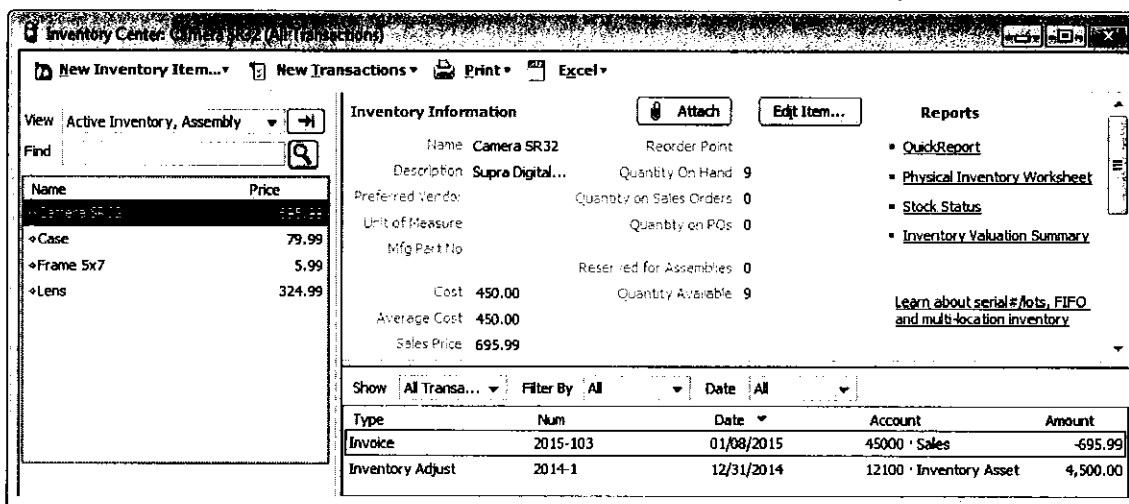


Figure 8-5 Inventory Center

- Step 2. Select the **New Inventory Item** button at the top of the *Inventory Center* and then select **New Inventory Item**. Alternatively, press **Ctrl+N**.
- Step 3. A *New Item* window opens with *Inventory Part* selected from the *Type* drop-down list. Press **Tab**.
- Step 4. Enter **Frame 8x10** in the *Item Name/Number* field and press **Tab**.

You may optionally assign each item in your Inventory a part number, and then use the part numbers in the *Item Name/Number* field.

- Step 5. Skip the *Subitem of* field by pressing **Tab**.

This field allows you to create subitems of items. If you use subitems, the *Sales by Item* reports and graphs will show totals for all sales and costs of the subitems.

Key Term: *Subitems* help to organize the *Item List*. Use subitems to group and subtotal information about similar products or services in sales reports and graphs.

Step 6. Skip the *Manufacturer's Part Number* field by pressing **Tab** again.

This field allows you to enter the part number that the Vendor uses or that is listed by the manufacturer. This enables you to reference the same number on *Purchase Orders* and *Bills* to eliminate confusion.

Step 7. If necessary, press **Tab** to skip the *Enable* button under *Unit of Measure*.

Many businesses purchase items using one unit of measure and sell the same item using a different unit of measure. For example, a retail store may purchase items by the case, but sell the items individually (or by *each*). QuickBooks Premier and Enterprise includes the *Unit of Measure* feature to help in these situations.

Step 8. Enter *Picture Frame - 8x10 in. Metal Frame* in the *Description on Purchase Transactions* field and press **Tab**.

The description you enter here appears as the default description when you use this item on *Purchase Orders* and *Bills*.

New Item

Type: Use for goods you purchase, track as inventory, and resell.

Item Name/Number: ☐ Subitem of Manufacturer's Part Number

Unit of Measure:

Purchase Information: Description on Purchase Transactions:

Sales Information: Description on Sales Transactions:

Cost: Sales Price:

COGS Account: Tax Code:

Preferred Vendor: Income Account:

Inventory Information: Asset Account: Reorder Point: On Hand: Total Value: As of:

QuickBooks uses these accounts to purchase, hold, and sell inventory parts.

Figure 8-6 The completed New Item window

Note:

Notice that there are three account fields on the New Item window (*COGS*, *Asset*, and *Income*). In each of these fields, enter the accounts that QuickBooks should use when you purchase, hold, and sell this item. You are specifying how QuickBooks should account for the item when it is used in an Inventory transaction. Each field is covered separately in this chapter.

- Step 9. Enter **5.00** in the *Cost* field and press **Tab**.

Use this field to track the amount you pay to your Vendor (supplier) for the item. QuickBooks uses this amount as the default when you enter this item on *Purchase Orders* and *Bills*. If the cost changes, you can override the amount on the *Purchase Order* or *Bill*, or you can come back and edit the amount here.

- Step 10. In the *COGS Account* field, *Cost of Goods Sold* is already selected. Press **Tab**.

QuickBooks uses the *Cost of Goods Sold* account to record the average cost of this item when you sell it. For more information on average cost, see page 242.

- Step 11. Select **Ace Supply** from the *Preferred Vendor* drop-down list and press **Tab**.

The *Preferred Vendor* field is used to associate the item with the Vendor from whom you normally purchase this part. It is an optional field that you can leave blank without compromising the integrity of the system.

- Step 12. Press **Tab** to leave the *Description on Sales Transactions* field unchanged. The text in this field defaults to whatever you entered in the *Description on Purchase Transactions* field.

QuickBooks allows you to have two descriptions for this item: one for purchase forms and one for sales forms. If you'd like, you can use your Vendor's description when purchasing the item and a more customer-oriented description on your sales forms.

- Step 13. Enter **9.99** in the *Sales Price* field. Press **Tab**. The *Sales Price* is how much you normally charge your *Customers* for the item. You can enter a default here and later override it on sales forms if you need to.

In order for the *Sales Price* field to automatically calculate a price based on the cost of the item, you could modify the *Default Markup Percentage* field in the *Company Preferences* tab for the *Time & Expenses Preference* (See Figure 8-7).

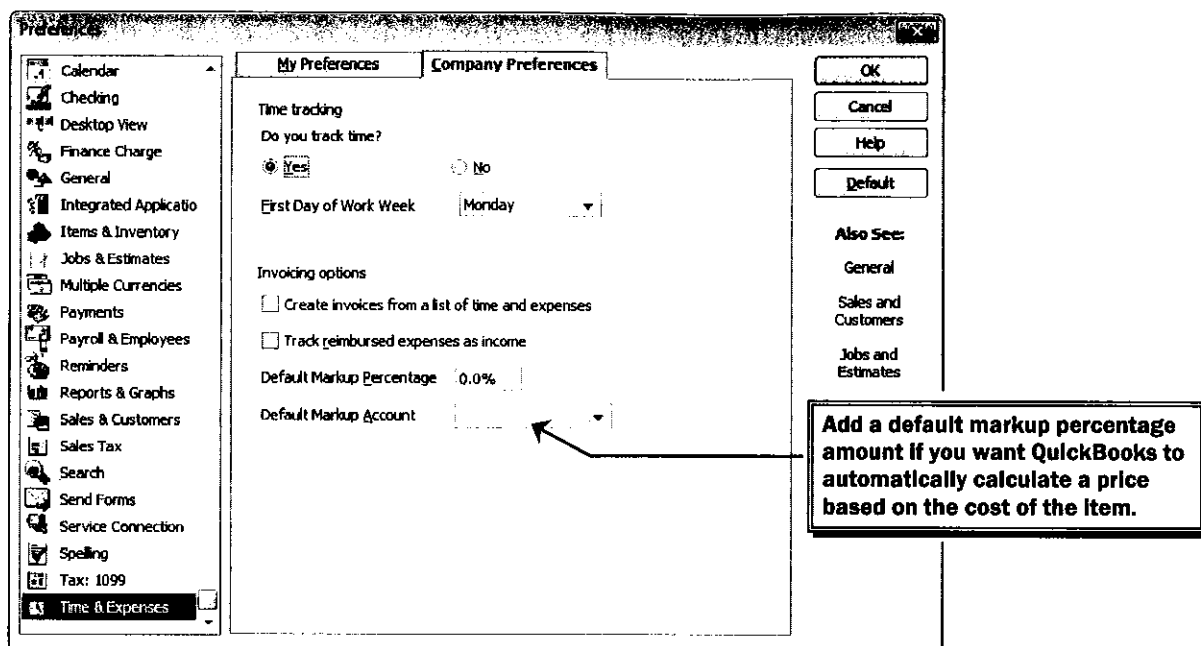


Figure 8-7 Modifying the default markup percentage in the Preferences window

Step 14. The **Tax Code** is already selected. Press **Tab**.

Tax Codes determine the default taxable status of the item. Since the *Tax Code* called *Tax* is taxable, QuickBooks calculates sales tax on this item when it appears on sales forms. You can override the default *Tax Code* on each sales form. For more information on *Sales Tax Codes* see page 85.

Step 15. Select **Sales** from the Income Account drop-down list. Press **Tab**.

This is the income account to which you want to post sales of this Item.

Step 16. In the *Asset Account* field, **Inventory Asset** is already selected. Press **Tab**.

The *Inventory Asset* account is the account that tracks the cost of your inventoried products between the time you purchase them and the time you sell them.

The accounting behind the scenes:

When you purchase Inventory, QuickBooks increases (debits) the *Inventory Asset* account by the amount of the purchase price. When you sell Inventory, QuickBooks decreases (credits) the *Inventory Asset* account and increases (debits) the *Cost of Goods Sold* account for the average cost of that item at the time it is sold. For details on how QuickBooks calculates average cost, see page 242.

Step 17. Enter **20** in the *Reorder Point* field and press **Tab** (see Figure 8-8).

The QuickBooks Reminders List will remind you when it's time to reorder Inventory items based on the *Reorder Point*.

The screenshot shows the 'New Item' window in QuickBooks. The 'Type' is set to 'Inventory Part'. The 'Item Name/Number' is 'Frame 8x10'. The 'Unit of Measure' is 'Each'. The 'Purchase Information' section shows a 'Description on Purchase Transactions' of 'Picture Frame - 8x10 inch Metal Frame', a 'Cost' of 5.00, a 'COGS Account' of '50000 - Cost of Goods Sold', and a 'Preferred Vendor' of 'Ace Supply'. The 'Sales Information' section shows a 'Description on Sales Transactions' of 'Picture Frame - 8x10 inch Metal Frame', a 'Sales Price' of 9.99, a 'Tax Code' of 'Tax', and an 'Income Account' of '45000 - Sales'. The 'Inventory Information' section shows an 'Asset Account' of '12100 - Inventory Asset', a 'Reorder Point' of 20 (circled in red), an 'On Hand' value of 0.00, a 'Total Value' of 0.00, and an 'As of' date of 01/01/2015. There are buttons for 'OK', 'Cancel', 'Next', 'Previous', 'Custom Fields', and 'Settings' on the right side.

Figure 8-8 When Inventory drops below the reorder point, QuickBooks reminds you to reorder

Step 18. Leave the *On Hand*, *Total Value*, and *As of* fields unchanged.

Note:

Do not enter the *On Hand*, *Total Value*, and *As of* fields. These fields are intended for use during the initial setup of the data file.

The accounting behind the scenes:

If you enter a quantity and value in this window, QuickBooks increases (debits) *Inventory* for the total value, and increases (credits) *Opening Bal Equity*.

However, even if you are setting up the data file it is better to leave the *On Hand* and *Total Value* fields set to zero when you set up the item. Then, as you will see later, use a single inventory adjustment transaction to set up the quantity and value on hand for *all* of the inventory items.

Step 19. Click OK to save the new Item.

Tip:

Before setting up Inventory, think about what products you will track as *Inventory Parts*. It may not be necessary to separately track *every* product you sell as an *Inventory Part*. If you do not need detailed reports and Inventory status information about certain products you sell, consider using *Non-Inventory Part* Items to track those products. In general, use *Inventory Part* Items only when you really need to track the stock status of a product.

Calculating Average Cost of Inventory

When you use an Inventory item on a purchase form (e.g., a *Bill*), QuickBooks increases (debits) the *Inventory Asset* account for the *actual* cost of the Inventory purchase. At the same time, QuickBooks Pro and Premier recalculate the *average cost* of all items in Inventory.

When you use an Inventory item on a sales form (e.g., an *Invoice*), in addition to recording income and accounts receivable, QuickBooks increases (debits) Cost of Goods Sold and decreases (credits) the Inventory Asset account for the average cost of the items.

Table 8-3 shows how QuickBooks Pro and Premier calculate the average cost of Inventory items.

| Situation/Transaction | Calculation |
|--|---|
| You have ten 8x10 picture frames in stock. Each originally costs \$5.00. | 10 units X \$5.00 per unit = \$50.00 total cost |
| You buy ten new 8x10 picture frames at \$6.00 each. | 10 units X \$6.00 per unit = \$60.00 total cost |
| The combined cost in inventory. | \$50.00 + \$60.00 = \$110.00 |
| The average cost per unit is equal to the total cost of Inventory divided by the total units in Inventory. | total cost/total units = average cost/unit \$110.00 / 20 = \$5.50 avg. cost/unit |

Table 8-3 QuickBooks calculates the average cost of inventory items.

Each time you sell Inventory items, the average cost per unit is multiplied by the number of units sold. Then this amount is deducted from the Inventory Asset account and added to the *Cost of Goods Sold* account.

QuickBooks Pro and Premier only use the average cost method for calculating Inventory value. New with the 2012 release, QuickBooks Enterprise Solutions 12 can use the First In, First Out (FIFO) method for calculating Inventory value. If you need the FIFO method for calculating Inventory, consider upgrading to QuickBooks Enterprise Solutions.

Invoicing for Inventory Items

Selling Inventory Items Using an Invoice Form

When you sell Inventory, always use an *Invoice* or a *Sales Receipt* to record the sale. This ensures that QuickBooks updates your Inventory records and your financial reports at the same time.

COMPUTER PRACTICE

Step 1. Enter the **Invoice** as shown in Figure 8-9, recording a sale of two 5x7 frames.

Customer: Job: Perez, Jerry; Class: Walnut Creek; Template: Academy Photo Ser...

Invoice
 To: Jerry Perez
 6845 Ocean View
 Lafayette, CA 94578

Summary
 Phone: 925-555-4483
 Email:
 Open balance: 0.00
 Active estimates: 0
 Sales Orders to be invoiced: 0

| Item | Quantity | Description | Rate | Amount | Class | Tax |
|-----------|----------|-------------------------------------|------|--------|--------------|-----|
| Frame 5x7 | 2 | Picture Frame - 5x7 in. Metal Frame | 5.99 | 11.98 | Walnut Creek | Tax |

Customer Message: [Empty]
Tax: Contra Costa (8.25%) 0.99
Total: 12.97

Payments Applied: 0.00
Balance Due: 12.97

Buttons: To be printed, To be e-mailed, Add Time/Costs..., Apply Credits..., Enable online payment, Save & Close, Save & New, Clear

Figure 8-9 Enter this data in your Invoice.

Step 2. Click **Save & New** to save the *Invoice*.

Creating a Transaction Journal Report

To see how this Invoice affects the *General Ledger*, use a *Transaction Journal Report*.

COMPUTER PRACTICE

Step 1. Display the Invoice 2015-106 (shown previously in Figure 8-9).

Step 2. Select the *Reports* menu and then select **Transaction Journal** (or press Ctrl+Y).

Academy Photography Inventory Chapter
Transaction Journal
 All Transactions

| Trans # | Type | Date | Num | Name | Memo | Item | Item Description | Account | Class | Sales Price | Amount |
|---------|---------|------------|----------|-----------------------|-----------------|--------------|-----------------------|-----------------------------|-------------|-------------|--------|
| 47 | Invoice | 04/07/2015 | 2015-106 | Perez, Jerry | | | | 11000 - Accounts Receivable | Walnut C... | | 12.97 |
| | | | | Perez, Jerry | Picture Fram... | Frame 5x7 | Picture Frame - 5x... | 45000 - Sales | Walnut C... | 5.99 | -11.98 |
| | | | | Perez, Jerry | Picture Fram... | Frame 5x7 | Picture Frame - 5x... | 12100 - Inventory Asset | Walnut C... | | -4.30 |
| | | | | Perez, Jerry | Picture Fram... | Frame 5x7 | Picture Frame - 5x... | 50000 - Cost of Goods Sold | Walnut C... | | -4.30 |
| | | | | State Board of Equ... | Contra Cost... | Contra Costa | Contra Costa Coun... | 25500 - Sales Tax Payable | | 8.25% | -0.99 |
| | | | | | | | | | | | 0.00 |
| | | | | | | | | | | | 0.00 |

Figure 8-10 Transaction Journal Report

The accounting behind the scenes:

When you sell an *Inventory Part*, QuickBooks increases (credits) the income account defined for the item sold on the *Invoice* or *Sales Receipt* form. The *Transaction Journal Report* (Figure 8-10) shows the accounting behind the scenes of the *Invoice*. You can use the *Transaction Journal Report* to see the accounting behind *any* QuickBooks transaction.

- Step 3. Close the report by clicking the close box (X) in the upper right corner. If the *Memorize Report* dialog box appears, check the *Do not display this message in the future* box and click **No**.
- Step 4. Close the **Invoice**.

Using Reminders for Inventory

Because you sold two Frame 5x7s and Inventory fell below 25 units (its reorder point), QuickBooks reminds you that it is time to reorder.

COMPUTER PRACTICE

- Step 1. Select the *Company* menu and then select **Reminders** (see Figure 8-11).
- Step 2. Double-click on the *Inventory to Reorder* line.

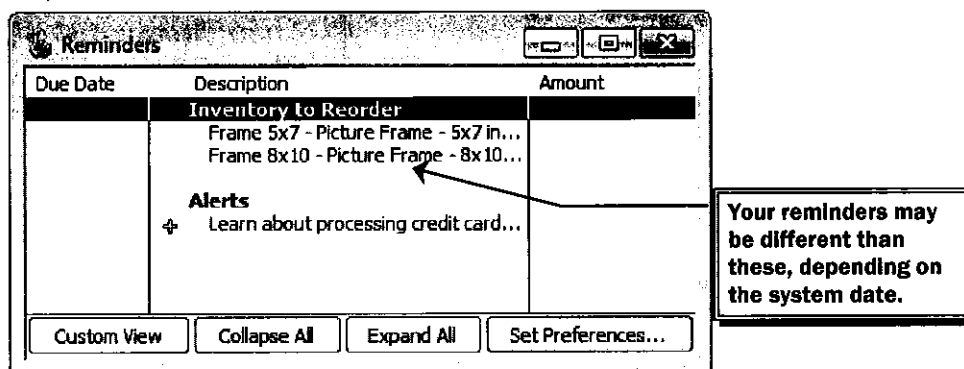


Figure 8-11 Reminders list

- Step 3. Close the window by clicking the close box (X) in the upper right corner.

Purchasing Inventory

There are several ways to record the purchases of Inventory in QuickBooks. How you record receiving Inventory depends on *when* you receive the Inventory and *how* you intend to pay for it.

You have two options for purchasing Inventory:

1. You could pay for items at the time you purchase and receive them. For example, you may be at your Vendor's store and write a check or charge your credit card for the items. In this case, you will use *Write Checks* or *Enter Credit Card Charges* to record your receipt of Inventory. This method is not generally advised for businesses that want a complete system for tracking purchases, receipts, and payments for Inventory purchases.
2. Alternatively, you could use the Inventory ordering and receiving process displayed in the *Vendors* section of the *Home* page shown in Figure 8-12. If you choose this method for processing Inventory, you will issue a *Purchase Order* (PO) for each purchase and later receive part or all of the order by recording an *Item Receipt* or a *Bill*.

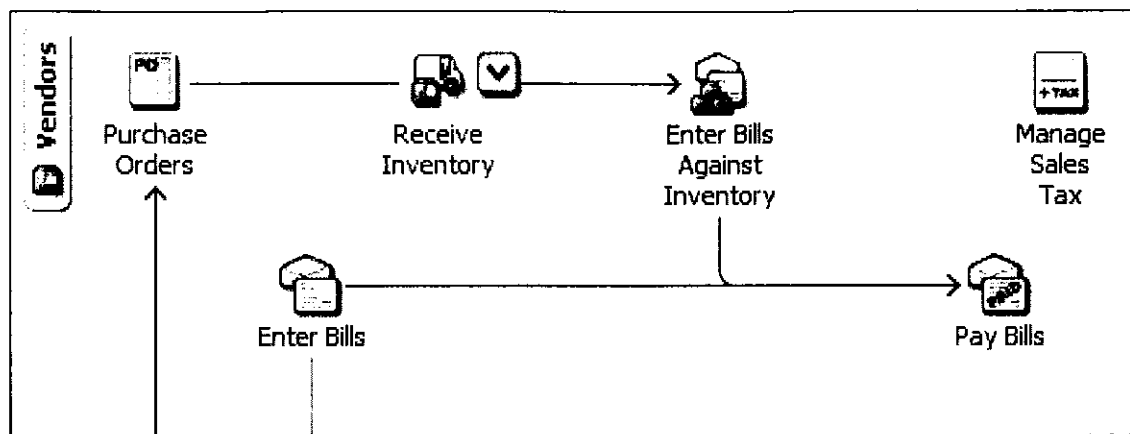


Figure 8-12 The Vendors section includes a flow chart for ordering and receiving Inventory

If the Vendor's bill does not accompany the shipment, use the *Receive Inventory without Bill* option from the *Receive Inventory* icon drop-down list (see Figure 8-13). This creates an *Item Receipt* in QuickBooks. When the bill comes, use the *Enter Bill for Received Items* option from the *Vendor* menu. This converts the *Item Receipt* into a *Bill*.

If you receive the bill when you receive the order, use the *Receive Inventory with Bill* option from the *Receive Inventory* drop-down list (see Figure 8-13). This creates a *Bill* in QuickBooks.

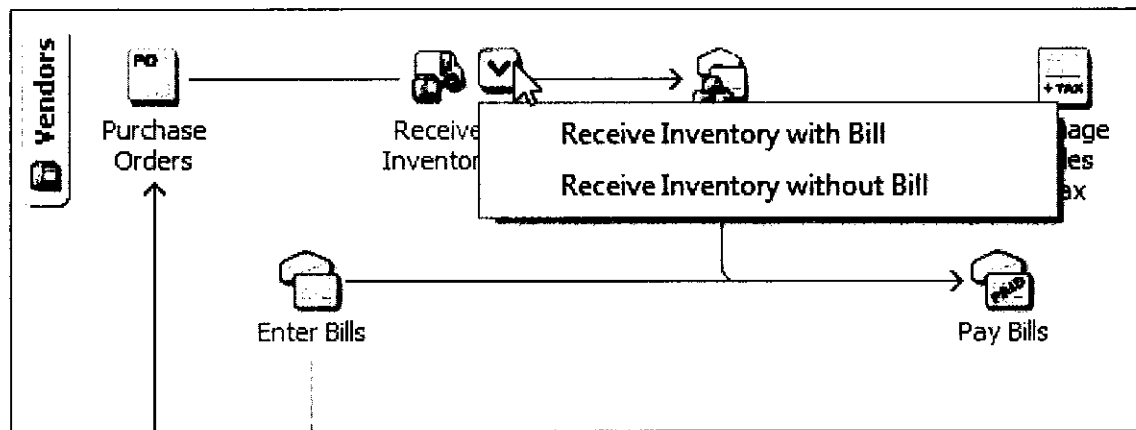


Figure 8-13 Receive Inventory drop-down list option

The *Receive Inventory* options from the *Receive Inventory* drop-down list and the *Receive Items* functions from the *Vendor* menu all record transactions that are *connected* to *Purchase Orders*. This connection is used by QuickBooks to track whether a purchase order is open or not.

Purchasing Inventory at a Retail Store with Check or Credit Card

If you buy Inventory at a retail store, use the *Write Checks* or *Enter Credit Card Charges* functions to record the purchase. Record the purchased items using the *Items* tab at the bottom of the check or credit card charge window (see Figure 8-14).

DO NOT ENTER THIS CHECK NOW. IT IS FOR REFERENCE ONLY.

Write Checks - Checking

Previous Next Save Print Find Attach

Bank Account 10100 - Checking Ending Balance 11,562.00

No. 330 Date 04/07/2015

Pay to the Order of Wong & Son Video \$ 924.95

Nine hundred twenty-four and 95/100***** Dollars

Address Wong & Son Video
P.O. Box 783
Milpitas, CA 94573

Memo

Order Checks

Expenses \$0.00 Items \$924.95 Online Payment To be printed

| Item | Description | Qty | Cost | Amount | Customer:Job | Billable? | Class |
|------|-----------------|-----|--------|--------|--------------|-----------|--------------|
| Lens | Supra Zoom Lens | 5 | 184.99 | 924.95 | | | Walnut Creek |

Select PO Receive All Show PO Time

Clear Splits Recalculate Save & Close Save & New Clear

Figure 8-14 Use the Items tab to record a purchase.

Purchase Orders

Use *Purchase Orders* to track Inventory purchases, as well as to easily determine which items you have on order. If you use *Purchase Orders*, you will be able to create reports that show what is on order and when it is due to arrive from your supplier. In addition, you can create a list of open *Purchase Orders*.

Purchase Orders do not post to the *Chart of Accounts*. However, QuickBooks tracks *Purchase Orders* in a non-posting account called *Purchase Orders*. You can see this account at the bottom of your *Chart of Accounts*.

Creating a Purchase Order

Create a *Purchase Order* to reorder Inventory, filling out each item and quantity.

Note:

Since *Purchase Orders* are non-posting, QuickBooks does not include them on the *Pay Bills* windows.

COMPUTER PRACTICE

- Step 1. Select **Create Purchase Orders** from the *Vendors* menu. Alternately, click the **Purchase Orders** icon on the *Home* page. This displays the *Create Purchase Orders* window (see Figure 8-15).
- Step 2. Select **Ace Supply** from the *Vendor* drop-down list or type the name into the *Vendor* field. Press **Tab**.
- Step 3. Enter **Walnut Creek** in the *Class* field. Press **Tab**.

- Step 4. Press **Tab** three times to leave the *Ship To* field blank and to accept **Custom Purchase Order** as the default form template.

If you want the order shipped directly to one of your customers, select your customer from the drop-down list of the *Ship To* field next to the *Class* field. By default, QuickBooks enters your company's address from the *Company Information* window. To change your *Ship To* address, override it on this form here or select **Company Information** from the *Company* menu. Click the **Ship to Address** button to add your changes.

- Step 5. Enter **04/07/2015** in the *Date* field (if not displayed already) and press **Tab**.

- Step 6. Enter **2015-1** in the *P.O. No.* field and press **Tab**.

QuickBooks automatically numbers your *Purchase Orders* in the same way it numbers *Invoices*. It increases the number by one for each new *Purchase Order*. However, you can override this number if necessary.

- Step 7. Press **Tab** twice to accept the default *Vendor* and *Ship To* addresses. Enter the **Frame 5x7 (Qty 10)** and **Frame 8x10 (Qty 30)** items in the body of the *Purchase Order* as shown in Figure 8-15.

The *Customer* column allows you to associate your purchases with a particular *Customer* or *Job* to which you want to assign the expense for this purchase. Since you are purchasing *Inventory*, you do not know the customer information, so do not use this column.

Purchase Order

Vendor: Ace Supply
435 Race Street, Suite 1
Hayward, CA 94555

Date: 04/07/2015
P.O. No.: 2015-1
Ship To: Academy Photography Inventory C
123 Main Street
Pleasanton, CA 94566

| Item | Description | Qty | Rate | Customer | Amount |
|--------------|---------------------------------------|-----|------|----------|---------------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 10 | 2.15 | | 21.50 |
| Frame 8x10 | Picture Frame - 8x10 inch Metal Frame | 30 | 5.00 | | 150.00 |
| Total | | | | | 171.50 |

Vendor Message: [Empty]

☒ To be printed ☐ To be e-mailed

Memo: Reorder Frames

Buttons: Save & Close, Save & New, Clear

Summary:

Phone: 510-555-4646
Open balance: 0.00
Credit Limit: 5,000.00
POs to be received: 0

Recent Transactions:

| Date | Description | Amount |
|----------|----------------|--------|
| 01/20/15 | Bill Pmt Check | 123.48 |
| 01/18/15 | Bill Paid | 126.00 |
| 01/05/15 | Check | 128.60 |

Figure 8-15 Create Purchase Orders window

- Step 8. Enter **Reorder Frames** in the *Memo* field.

- Step 9. Click **Save & Close**.

Receiving Shipments Against Purchase Orders

If you use *Purchase Orders* and you receive a shipment that is not accompanied by a bill, follow these steps:

COMPUTER PRACTICE

- Step 1. From the *Vendors* menu, select **Receive Items**. Alternatively, click **Receive Inventory** and then select **Receive Inventory without Bill** from the drop-down menu on the *Vendors* section of the *Home* page.
- Step 2. The *Create Item Receipts* window opens (see Figure 8-16). Enter *Ace Supply* in the *Vendor* field and press **Tab**.

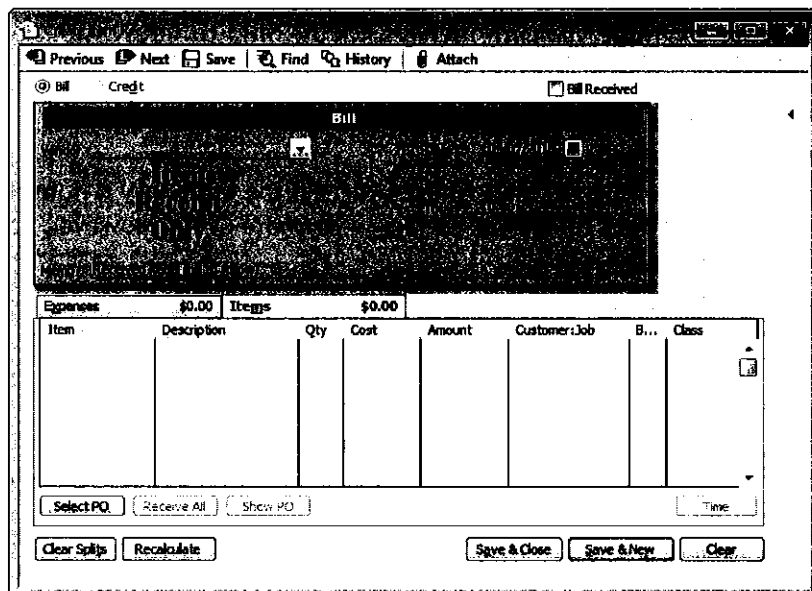


Figure 8-16 The Create Item Receipts window

- Step 3. Since there is an open *Purchase Order* for this Vendor, QuickBooks displays the message in Figure 8-17. Click **Yes**.

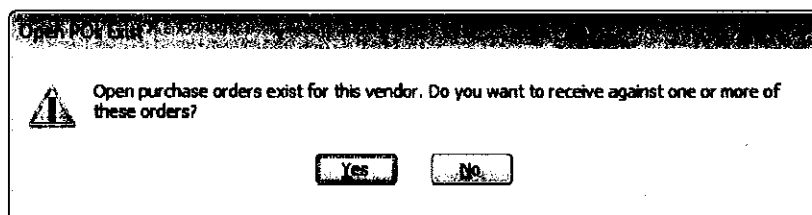


Figure 8-17 QuickBooks displays an Open POs Exist message, if applicable

- Step 4. Select the **Purchase Order** you are receiving against from the list in Figure 8-18 by clicking in the ☒ column. Then click **OK**.

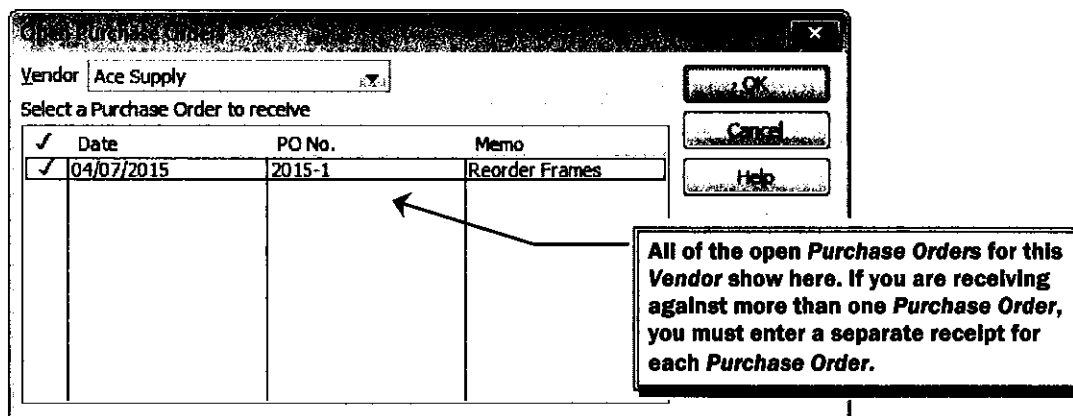


Figure 8-18 Open Purchase Orders window

- Step 5. QuickBooks fills in the *Item Receipt* with the information from the *Purchase Order* as shown in Figure 8-19.

| Item | Description | Qty | Cost | Amount | Class | PO No. |
|------------|---------------------------------------|-----|------|--------|--------------|--------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 10 | 2.15 | 21.50 | Walnut Creek | 2015-1 |
| Frame 8x10 | Picture Frame - 8x10 inch Metal Frame | 30 | 5.00 | 150.00 | Walnut Creek | 2015-1 |

Figure 8-19 QuickBooks automatically completes the *Item Receipt* using the information from the *Purchase Order*

- Step 6. Leave **04/07/2015** in the *Date* field. Press **Tab**.
 Step 7. Enter **4431** in the *Ref. No.* field (see Figure 8-20).

In the *Ref. No.* field you would enter the shipper number on the packing slip that accompanies the shipment. This helps you match the receipt with the *Vendor's* bill when you receive it.

- Step 8. **Tab** to the *Qty* column. Change the quantity to **5** for the *Frame 5x7*, and to **15** for the *Frame 8x10* (see Figure 8-20).

Do not worry about the *Cost* column. You have not received the bill yet, so QuickBooks uses the amounts you entered on the *Purchase Order*. When you get the actual bill for this shipment, you will correct or adjust the *Cost* column if necessary.

| Item | Description | Qty | Cost | Amount | Class | PO No. |
|------------|---------------------------------------|-----|------|--------|--------------|--------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 5 | 2.15 | 10.75 | Walnut Creek | 2015-1 |
| Frame 8x10 | Picture Frame - 8x10 inch Metal Frame | 15 | 5.00 | 75.00 | Walnut Creek | 2015-1 |

Figure 8-20 Use the shipper number in the *Ref. No.* field.

Step 9. To save the Item Receipt, click **Save & Close**.

The accounting behind the scenes:

When you record an *Item Receipt*, QuickBooks increases (credits) *Accounts Payable* for the total amount of the *Item Receipt*. It also increases (debits) *Inventory* for the same amount.

However, since you have not received the bill, your *Pay Bills* window will not yet show the bill, even though the balance in *Accounts Payable* was increased by the *Item Receipt*. This may seem strange at first because you normally expect the total in *Pay Bills* to match the balance in *Accounts Payable*. However, *Item Receipts* never show in the *Pay Bills* window. This properly accrues the liability in the right period.

It turns out that *Item Receipts* and *Bills* are exactly the same transaction. The only difference is that the *Bill Received* box is not checked on *Item Receipts*, and it is checked on *Bills*.

Note:

You will see that *Item Receipt* does show up on the *Unpaid Bills Detail* and *A/P Aging Reports*. This lets you know that you have a payable to a Vendor for which you have not received a *Bill*. For cash forecasting purposes, it is important that these reports detail out everything you owe, even if a *Bill* has not yet been received.

Creating Open Purchase Orders Reports

COMPUTER PRACTICE

Step 1. Select the *Reports* menu, select **Purchases**, and then select **Open Purchase Orders**.

This report (see Figure 8-21) shows the total dollar amount for *all* open *Purchase Orders*, not just the open balance of each *Purchase Order*. To see the open balance on a specific *Purchase Order*, double-click on it from this report.

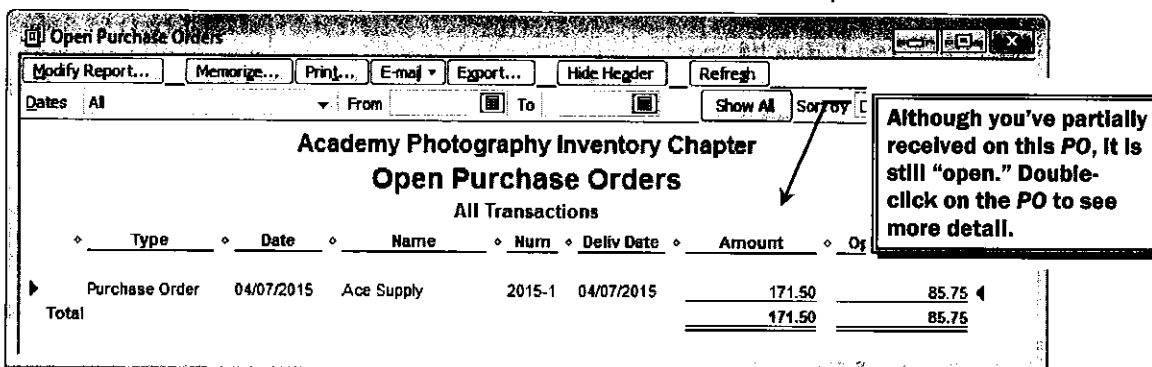


Figure 8-21 The Open Purchase Orders Report

Checking Purchase Order Status

To check the status of a *Purchase Order*, to change it, or to cancel it, edit the *Purchase Order* directly.

COMPUTER PRACTICE

- Step 1. Display the **Purchase Order** by double-clicking on it from the **Open Purchase Orders** report shown in Figure 8-21.

Purchase Order

Vendor: Ace Supply
435 Race Street, Suite 1
Hayward, CA 94555

Class: Walnut C... Drop Ship To: Academy Photography Inventory C
123 Main Street
Pleasanton, CA 94566

Date: 04/07/2015 P.O. No.: 2015-1

| Item | Description | Qty | Rate | Customer | Amount | Rcv'd | Clsd |
|------------|---------------------------------------|-----|------|----------|--------|-------|------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 10 | 2.15 | | 21.50 | 5 | |
| Frame 8x10 | Picture Frame - 8x10 inch Metal Frame | 30 | 5.00 | | 150.00 | 15 | |

Vendor Message: _____

Total: 1

☒ To be printed ☐ To be e-mailed ☐ Closed

Memo: Reorder Frames

Buttons: Save & Close, Save & New, Revert

Annotations:

- You can see what has been received on this PO. The whole PO remains "open" until all items are received.
- To close any line, (and cancel that part of the order) click in the Clsd column.
- To close the whole PO (and cancel all outstanding orders), click the Closed box.

Figure 8-22 Edit the purchase order as necessary.

- Step 2. Review the quantity of each Item in the *Rcv'd* column.

On the *Purchase Order* in Figure 8-22, you can see that Academy Photography has received 5 Frame 5x7s and 15 Frame 8x10s.

If you know you will not receive the backorder items on a *Purchase Order*, you can close specific line items or close the whole order. To close any line of the order, click in the *Clsd* column. To close the whole order and cancel the rest of the order, click the *Closed* box at the bottom of the form. If you cancel an order, do not forget to notify the Vendor.

- Step 3. In this case, close the window without making any changes to the *Purchase Order*. Close the *Open Purchase Orders* report.

Entering the Final Shipment

When the final shipment arrives, enter another *Item Receipt*.

COMPUTER PRACTICE

- Step 1. Select the *Vendors* menu and then select **Receive Items**. Alternatively, click **Receive Inventory** and then **Receive Inventory without Bill** on the *Vendor* section of the *Home* page.
- Step 2. The *Create Item Receipts* window opens (see Figure 8-23).
- Step 3. Enter **Ace Supply** in the *Vendor* field and then press **Tab**.

Figure 8-23 Enter the Vendor name in the Create Item Receipts window

Step 4. Because there is an open *Purchase Order* for this *Vendor*, QuickBooks displays the dialog box shown in Figure 8-24. Click **Yes**.

Figure 8-24 The Open PO's Exist window appears

Step 5. Select the **Purchase Order** you are receiving against from the list (see Figure 8-25) and click **OK**.

Figure 8-25 Open Purchase Orders window

Step 6. QuickBooks automatically fills in the *Item Receipt* with the information from the *Purchase Order*.

Step 7. Leave **04/07/2015** in the *Date* field.

Step 8. Enter **4441** in the *Ref. No.* field (see Figure 8-26).

Item Receipt

Vendor: **Ace Supply** Edit Vendor

Summary

Phone: 510-555-4646
 Open balance: 85.75
 Credit Limit: 5,000.00
 POs to be received: 1

Recent Transactions QuickReport

04/07/15 **Item Receipt** 85.75
 01/20/15 **Bill Pmt - Check** 123.48
 01/18/15 **Bill - Paid** 126.00
 01/05/15 **Check** 128.60

Notes Edit

| Item | Description | Qty | Cost | Amount | Cus... | B... | Class | PO No. |
|------------|---------------------------------------|-----|------|--------|--------|------|--------------|--------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 5 | 2.15 | 10.75 | | | Walnut Creek | 2015-1 |
| Frame 8x10 | Picture Frame - 8x10 Inch Metal Frame | 15 | 5.00 | 75.00 | | | Walnut Creek | 2015-1 |

Expenses: \$0.00 Items: \$85.75

Select PO Clear Qty Show PO Time

Clear Split Recalculate Save & Close Save & New Clear

Figure 8-26 Item Receipt #4441

Step 9. Click **Save & Close** to record the receipt.

Entering Bills for Received Inventory

Now that you have recorded *Item Receipts* for your Inventory shipments, the next step in the process is to record the bills when they arrive from the vendor.

Converting an Item Receipt into a Bill

COMPUTER PRACTICE

- Step 1. Select the *Vendors* menu and then select **Enter Bill for Received Items**. Alternatively, click **Enter Bills Against Inventory** icon in the *Vendor* section of the *Home* page.
- Step 2. Enter **Ace Supply** in the *Vendor* field and then press **Tab**.

Vendor: **Ace Supply** OK Cancel Help

☐ Use item receipt date for the bill date

Choose the Item Receipt which corresponds to your bill

| Date | Ref No. | Memo |
|------------|---------|---------------------------------|
| 04/07/2015 | 4431 | Received items (bill to follow) |
| 04/07/2015 | 4441 | Received items (bill to follow) |

Select one shipment at a time to record the amount of the bill for each.

Enter the Vendor name and press Tab to see a list of shipments received from this Vendor.

Figure 8-27 Select one shipment at a time

Step 3. Select the first line on the window shown in Figure 8-27. Click OK.

Bill Received

The **Bill Received** box is checked. Checking this box converts an **Item Receipt** into a **Bill**.

| Item | Description | Qty | Cost | Amount | Cu... | Bl... | Class | PO No. |
|------------|---------------------------------------|-----|------|--------|-------|-------|--------------|--------|
| Frame 5x7 | Picture Frame - 5x7 in. Metal Frame | 5 | 2.15 | 10.75 | | | Walnut Creek | 2015-1 |
| Frame 8x10 | Picture Frame - 8x10 inch Metal Frame | 15 | 5.00 | 75.00 | | | Walnut Creek | 2015-1 |

Expenses: \$0.00 Items: \$85.75

Buttons: Select PO, Clear Qties, Show PO, Time, Clear Splits, Recalculate, Save & Close, Save & New, Revert.

| Recent Transactions | QuickReport |
|---------------------------|-------------|
| 04/07/15 Item Receipt | 85.75 |
| 04/07/15 Item Receipt | 85.75 |
| 01/20/15 Bill Pmt - Check | 123.48 |
| 01/18/15 Bill - Paid | 126.00 |
| 01/05/15 Check | 128.60 |

Notes: Edit

Figure 8-28 Enter Bills window

Step 4. QuickBooks displays the *Item Receipt* and automatically checks the *Bill Received* box (see Figure 8-28). Checking the *Bill Received* box converts the *Item Receipt* into a *Bill*. Verify that the *Bill* matches your records and make changes to price, terms, due date, or any other field that does not match the Vendor's bill.

Note:

QuickBooks does not add a new transaction when you use the *Enter Bill for Received Items* function. That is because you have already recorded an *Item Receipt*, which increases Inventory and Accounts Payable. This function simply converts your *Item Receipt* into a *Bill*.

Step 5. Click **Save & Close** to record the *Bill*.

Step 6. Click **Yes** if the *Recording Transaction* message displays.

Step 7. Repeat Step 1 through Step 6 for Item Receipt #4441 and accept the defaults for all quantities and amounts.

Note:

QuickBooks does not allow you to "group" multiple *Item Receipts* into one *Bill* if only one Vendor bill is received for the entire PO. If you receive one Vendor bill and have multiple *Item Receipts*, in the reference number of the *Bill* make sure to enter the same number. This will enable you to easily identify all the *Bills* that add up to the Vendor bill received when creating the Vendor's *Bill Payment* check.

Handling Overshipments

If your Vendor ships more than you ordered on a *Purchase Order*, you have three choices.

1. You could refuse the extra shipment and send it back to the Vendor without recording anything in QuickBooks.
2. You could receive the extra shipment into Inventory and keep it (and pay for it).
3. You could receive the extra shipment into Inventory, and then send it back and record a *Bill Credit* in QuickBooks.

If you keep the overshipment (and pay for it):

DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.

1. Override the number in the *Qty* column on the *Item Receipt* so that it exceeds the quantity on your *Purchase Order*. This increases the *Inventory Asset* and *Accounts Payable* accounts for the total amount of the shipment, including the overshipment.
2. When the bill arrives from the Vendor, match it with the *Item Receipt* and pay the amount actually due. Unless you edit the *Purchase Order*, it will not match the *Item Receipt* or *Bill*. This may be important later when you look at *Purchase Orders* and actual purchase costs, so consider updating your *Purchase Order* to match the actual costs.

If you send the overshipment back after receiving it into Inventory:

DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.

1. Override the number in the *Qty* column on the *Item Receipt* so that it exceeds the quantity on your *Purchase Order*. This increases the *Inventory Asset* and *Accounts Payable* accounts for the total amount of the shipment, including the overshipment. However, you do not plan to actually pay the Vendor for this "overshipment." Instead, you will return the extra items, and ask the Vendor to credit your account.
2. When you return the excess items, create a *Bill Credit* for the Vendor. On the *Bill Credit*, enter the quantity returned and the cost for each item. We use a *Bill Credit* here because we want to reflect the proper financial transactions between us and our Vendor.
3. At this point, the Vendor may apply your credit towards a future *Invoice* on items they send to you, or they may send you a refund if you have paid for the shipment.
4. If you receive a refund from the Vendor, record the refund directly onto your next deposit transaction. You can manually add a line to the deposit using the Vendor's name in the *Received from* column, and *Accounts Payable* in the *From Account* column. Then, after recording the deposit, use the *Pay Bills* screen to apply the deposit line to the *Bill Credit*.
5. To apply the *Bill Credit* to an unpaid bill for that Vendor, use the *Pay Bills* window.

Handling Vendor Overcharges

If you have a discrepancy between your *Purchase Order* and the Vendor's bill, there are several ways to handle it. If the Vendor overcharged you, the Vendor might agree to revise the bill and send you a new one. In this case, wait for the new bill before recording anything in QuickBooks. On the other hand, you might decide to pay the incorrect bill and have the Vendor adjust the next bill. In that case, use the *Expenses* tab on the *Bill* in QuickBooks to track the error. In this example, assume you were overcharged by \$10.00.